

**Internal Revenue Service Cost Proposal  
Evaluation of TIRNO-01-R-00022**

**April 2002**

**Reference Number: 2002-1C-083**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 8, 2002

MEMORANDUM FOR DAVID A. GRANT  
DIRECTOR OF PROCUREMENT  
INTERNAL REVENUE SERVICE

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Internal Revenue Service Cost Proposal Evaluation of  
TIRNO-01-R-00022 (Audit #200210002.021)

As requested, the Defense Contract Audit Agency (DCAA) examined the contractor's Information Technology, Government Solutions firm-fixed-price proposal to determine if the proposed costs are acceptable as a basis to negotiate a fair and reasonable contract price. The proposal is for services and an option to buy scanners. The contractor proposed a performance period of January 1, 2003 through September 30, 2012.

The DCAA considers the contractor's estimating system adequate to ensure that the proposal and final certified prices are based on accurate, complete, and current cost or pricing data. However, the DCAA qualified its opinion because the Technical Evaluation of Direct Labor Hours has not been received. The DCAA will issue a supplemental audit report upon receipt of the Technical Evaluation, if necessary. In addition, the DCAA noted that the contractor has stated that it expects to realize a cost savings as a result of the acquisitions of two companies. The DCAA has been unable to determine the cost impact of any restructuring activities on the contractor's corporate, divisional and segment direct and indirect costs affecting government contracts.

In summary, the DCAA recommends that the contract price negotiations not be concluded until the contracting officer considers the result of the Direct Labor Hours Technical Evaluation. Also, the DCAA recommends that the contracting officer include a downward only savings clause that would adjust the contract for restructuring savings achieved as a result of the acquisitions.

The information in this report should not be used for purposes other than that intended without prior consultation with the Treasury Inspector General for Tax Administration regarding its applicability.

If you have any questions, please contact me at (202) 622-6510 or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

Attachment

# NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 USC 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

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